

LOUISIANA TECH UNIVERSITY FOUNDATION, INC.

RUSTON, LOUISIANA

JUNE 30, 2017 AND 2016

LOUISIANA TECH UNIVERSITY FOUNDATION, INC.

RUSTON, LOUISIANA

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AUDITED FINANCIAL STATEMENTS

HEARD, McELROY, & VESTAL

LLC

CERTIFIED PUBLIC ACCOUNTANTS

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December 26, 2017

The Board of Directors
Louisiana Tech University Foundation, Inc.
Ruston, Louisiana

Independent Auditor's Report

Report on the Financial Statements

We have audited the accompanying financial statements of Louisiana Tech University Foundation, Inc., which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Louisiana Tech University Foundation, Inc. as of June 30, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 26, 2017 on our consideration of Louisiana Tech University Foundation, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Louisiana Tech University Foundation, Inc.'s internal control over financial reporting and compliance.

Heard, McElroy & Vestal, LLC

Shreveport, Louisiana

LOUISIANA TECH UNIVERSITY FOUNDATION, INC.

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2017 AND 2016

<u>A S S E T S</u>	<u>2017</u>	<u>2016</u>
Cash and cash equivalents	15,965,061	15,109,517
Accounts receivable-Note 11	1,380,931	3,415,431
Contributions receivable, net-Note 6	5,760,035	1,558,664
Accrued interest receivable	-	6,835
Investments-Notes 3 and 4	21,592,279	29,513,998
Fixed assets, net-Note 5	658,355	677,814
Other assets	395,088	347,961
Note receivable, long-term	11,054,000	-
Restricted assets-investments-Notes 3 and 4	<u>42,951,643</u>	<u>40,234,258</u>
Total assets	<u>99,757,392</u>	<u>90,864,478</u>
 <u>LIABILITIES AND NET ASSETS</u>		
<u>Liabilities:</u>		
Accounts payable	3,857,651	847,724
Accrued interest payable	28,285	28,890
Annuities liability-Note 10	148,014	161,439
Deferred revenue-Note 11	1,310,506	1,965,759
Notes payable-Note 7	12,637,951	1,808,013
Due to Louisiana Tech University-Note 8	<u>38,771,643</u>	<u>36,234,258</u>
Total liabilities	56,754,050	41,046,083
 <u>Net assets:</u>		
Unrestricted:		
Undesignated	2,568,479	3,833,921
Invested in capital assets, net of related debt	<u>(925,596)</u>	<u>(1,130,199)</u>
	1,642,883	2,703,722
Temporarily restricted-for specific purposes	10,709,327	17,216,265
Permanently restricted-endowment-Note 12	<u>30,651,132</u>	<u>29,898,408</u>
Total net assets	<u>43,003,342</u>	<u>49,818,395</u>
Total liabilities and net assets	<u>99,757,392</u>	<u>90,864,478</u>

See accompanying notes to financial statements.

LOUISIANA TECH UNIVERSITY FOUNDATION, INC.

STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

	<u>2017</u>			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<u>Revenues, gains and other support:</u>				
Contributions	170,863	14,822,102	1,215,283	16,208,248
Contributed services	1,628,235	-	-	1,628,235
Interest and dividends income	132,600	645,349	971	778,920
Service charges	1,308,552	34,798	-	1,343,350
Realized and unrealized gains (losses) on investments, net	(10,538)	2,037,729	-	2,027,191
Other	<u>185,261</u>	<u>1,821,757</u>	<u>138,669</u>	<u>2,145,687</u>
	3,414,973	19,361,735	1,354,923	24,131,631
 Net assets released from restrictions	<u>26,090,872</u>	<u>(25,868,673)</u>	<u>(222,199)</u>	<u>-</u>
Total revenues, gains and other support	29,505,845	(6,506,938)	1,132,724	24,131,631
 <u>Expenses:</u>				
Instructional support	2,209,333	-	-	2,209,333
Academic support	69,232	-	-	69,232
Research	200,275	-	-	200,275
Institutional support	902,946	-	-	902,946
Student financial aid	2,954,506	-	-	2,954,506
Student services	293,930	-	-	293,930
Auxiliary	18,149,329	-	-	18,149,329
General administrative services	3,188,006	-	-	3,188,006
Fundraising	<u>2,599,127</u>	<u>-</u>	<u>-</u>	<u>2,599,127</u>
Total expenses	30,566,684	-	-	30,566,684
 Assets dedicated to Louisiana Tech University, net-Note 12	<u>-</u>	<u>-</u>	<u>(380,000)</u>	<u>(380,000)</u>
Change in net assets	(1,060,839)	(6,506,938)	752,724	(6,815,053)
 <u>Net assets, beginning of year</u>	<u>2,703,722</u>	<u>17,216,265</u>	<u>29,898,408</u>	<u>49,818,395</u>
 <u>Net assets-end of year</u>	<u>1,642,883</u>	<u>10,709,327</u>	<u>30,651,132</u>	<u>43,003,342</u>

See accompanying notes to financial statements.

2016			
<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
303,733	9,389,033	1,448,749	11,141,515
1,304,277	-	-	1,304,277
10,410	634,946	651	646,007
1,093,557	25,475	-	1,119,032
(1,941)	(548,838)	375	(550,404)
<u>1,474,160</u>	<u>3,823,216</u>	<u>3,836</u>	<u>5,301,212</u>
4,184,196	13,323,832	1,453,611	18,961,639
<u>11,871,373</u>	<u>(11,772,426)</u>	<u>(98,947)</u>	<u>-</u>
16,055,569	1,551,406	1,354,664	18,961,639
2,168,805	-	-	2,168,805
57,379	-	-	57,379
35,939	-	-	35,939
1,355,639	-	-	1,355,639
853,595	-	-	853,595
1,628,981	-	-	1,628,981
5,616,116	-	-	5,616,116
2,766,542	-	-	2,766,542
<u>1,890,117</u>	<u>-</u>	<u>-</u>	<u>1,890,117</u>
16,373,113	-	-	16,373,113
<u>-</u>	<u>-</u>	<u>(900,000)</u>	<u>(900,000)</u>
(317,544)	1,551,406	454,664	1,688,526
<u>3,021,266</u>	<u>15,664,859</u>	<u>29,443,744</u>	<u>48,129,869</u>
<u>2,703,722</u>	<u>17,216,265</u>	<u>29,898,408</u>	<u>49,818,395</u>

LOUISIANA TECH UNIVERSITY FOUNDATION, INC.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
<u>Cash flows from operating activities:</u>		
Change in net assets	(6,815,053)	1,688,526
Adjustments to reconcile change in net assets to net cash (used) by operating activities:		
Depreciation and amortization	83,968	68,503
Net unrealized (gain) loss on long-term investments	(1,361,686)	648,009
Realized (gain) on sale of investments	(1,699,486)	(39,374)
Contributions restricted for long-term investment	(1,215,283)	(1,448,749)
<u>(Increase) decrease in assets:</u>		
Accounts receivable	2,034,500	(580,244)
Contributions receivable, net	(4,201,371)	(704,408)
Accrued interest receivable	6,835	5,271
Other assets	(47,127)	(57,232)
<u>Increase (decrease) in liabilities:</u>		
Accounts payable	3,009,927	277,957
Accrued interest payable	(605)	(1,188)
Annuities liability	(13,425)	(12,970)
Deferred revenue	<u>(655,253)</u>	<u>(655,253)</u>
Net cash (used) by operating activities	(10,874,059)	(811,152)
<u>Cash flows from investing activities:</u>		
Purchases of fixed assets	(81,515)	(31,478)
Proceeds from sale of fixed assets	17,007	-
Purchases of investments	(41,395,567)	(7,890,182)
Proceeds on sale of investments	53,783,840	7,742,606
(Decrease) in due to Louisiana Tech University	<u>(1,585,382)</u>	<u>(1,604,001)</u>
Net cash provided (used) by investing activities	10,738,383	(1,783,055)
<u>Cash flows from financing activities:</u>		
Contributions restricted for investment in endowment	1,215,283	1,448,749
Payments of notes payable	(224,063)	(218,533)
Proceeds from issuance of debt	<u>-</u>	<u>31,477</u>
Net cash provided by financing activities	<u>991,220</u>	<u>1,261,693</u>
<u>Increase (decrease) in cash and cash equivalents</u>	855,544	(1,332,514)
<u>Cash and cash equivalents-beginning of year</u>	<u>15,109,517</u>	<u>16,442,031</u>
<u>Cash and cash equivalents-end of year</u>	<u>15,965,061</u>	<u>15,109,517</u>
<u>Interest paid</u>	<u>62,350</u>	<u>68,440</u>

See accompanying notes to financial statements.

LOUISIANA TECH UNIVERSITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

1. Organization and Significant Accounting Policies

Organization

The Louisiana Tech University Foundation, Inc. (the Foundation) was organized to solicit, receive, hold, invest and transfer funds for the benefit of Louisiana Tech University (Louisiana Tech University). Additionally, the Foundation assists Louisiana Tech University in meeting the criteria for accreditation as outlined by the Commission on Colleges for the Southern Association of Colleges and Schools. Louisiana Tech University and the Foundation are also in a management agreement related to endowed chairs and professorships. This agreement is in compliance with Board of Regents policy and allows the Foundation to manage funds on behalf of Louisiana Tech University. The Foundation is a separate legal entity and is not included as part of the reporting entity of Louisiana Tech University.

Significant Accounting Policies

Basis of accounting

The Foundation's financial statements are presented on the accrual basis of accounting in accordance with generally accepted accounting principles of the United States of America. Accordingly, they reflect revenues and related receivables when earned rather than when received and expenses and related payables when incurred rather than when paid.

The Foundation maintains its accounts in accordance with the principles of fund accounting. Fund accounting is the procedure by which resources for various purposes are classified for accounting purposes in accordance with activities or objectives specified by donors.

Financial statement presentation

The Foundation is required to report information regarding its financial position and activities according to three classes of net assets:

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations. However, these assets may be designated by management for specific purposes.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Foundation and/or passage of time. This classification includes gifts, annuities and unconditional promises to give for which the ultimate purpose of the proceeds is not permanently restricted.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Foundation. Generally, the donors of these assets permit the Foundation to use all of, or part of, the income earned on the related investments for general or specific purposes.

1. Organization and Significant Accounting Policies (Continued)

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law.

Net Assets Released from Restrictions

Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

Contributions

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. An allowance for uncollectible contributions receivable is provided based upon management's judgment including such factors as prior collection history, type of contribution, and nature of fund-raising activity.

Investment Income

Income and realized and unrealized net gains and losses on investments of endowment and similar funds are reported as follows:

- as changes in permanently restricted net assets if the terms of the gift require that they be added to the principal of a permanent endowment fund;
- as changes in temporarily restricted net assets if the terms of the gift impose restrictions on the use of the income;
- changes in unrestricted net assets in all other cases.

Temporarily Restricted Net Assets

With respect to temporarily restricted net assets, the Foundation has adopted the following accounting policies.

Contributions with Restrictions Met in the Same Year - Contributions received with donor-imposed restrictions that are met in the same year as received are reported as revenues of temporarily restricted net assets, and a reclassification to unrestricted net assets is made to reflect the expiration of such restrictions.

Release of Restrictions on Net Assets for Acquisition of Land, Building and Equipment - Contributions of land, building and equipment without donor stipulations concerning the use of such long-lived assets are reported as revenues of the unrestricted net asset class. Contributions of cash or other assets to be used to acquire land, building and equipment without such donor stipulations concerning the use of such long-lived assets are reported as revenues of the temporarily restricted net asset class; the restrictions are considered to be released at the time of acquisition of such long-lived assets.

Cash and Cash Equivalents

Cash and cash equivalents principally include cash and money market investments not held by trustees. For purposes of the cash flow statement, all highly liquid instruments with original maturities of three months or less are considered cash equivalents.

1. Organization and Significant Accounting Policies (Continued)

In-Kind Gifts

Gifts of investments, real estate, and other property contributed to the Foundation are recorded at estimated fair value at date of contribution.

Accounts Receivable

Accounts receivable consists of amounts due from outside parties. Management evaluates the collectibility and aging of those accounts receivable in determining the need for an allowance for doubtful accounts.

Investments

Investments in marketable securities with readily determinable fair values are stated at fair value. Realized gains or losses on sales of investment securities are based upon the cost of the specific security sold. Unrealized gains and losses are included in the change in net assets.

Fixed Assets

Depreciation is provided on the straight-line method based on the estimated useful lives of the depreciable assets which range from two to thirty years. The Foundation capitalizes expenditures in excess of \$2,500 for fixed assets at cost.

Tax Status

The Foundation is exempt from federal income taxes under Section 501(a) of the Internal Revenue Code (IRC) as an organization described in IRC Section 501(c)(3). Therefore, no provision for income taxes has been made in the financial statements, but the Foundation is required to file an annual information tax return. The Foundation is also required to review various tax positions it has taken with respect to its exempt status and to determine whether in fact it is a tax exempt entity. The Foundation must also consider whether it has nexus in jurisdictions in which it has income and whether a tax return is required in those jurisdictions. In addition, as a tax exempt entity, the Foundation must assess whether it has any tax positions associated with unrelated business income subject to income tax. The Foundation does not expect its positions to change significantly over the next twelve months. Any penalties related to late filing or other requirements would be recognized as penalties expense in the Foundation's accounting records.

The Foundation files U.S. federal Form 990 for informational purposes. The Foundation's federal income tax returns for the tax years 2012 and beyond remain subject to examination by the Internal Revenue Service.

Funds Functioning as Endowment

The Foundation has designated funds for which the income earned is designated for specific uses. Because there is no donor-imposed restriction, these funds are classified as unrestricted net assets; however, the Foundation restricts the use of the funds in the same manner as a donor would by creating an endowment.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

1. **Organization and Significant Accounting Policies** (Continued)

Reclassifications

Certain amounts in the fiscal year ended June 30, 2016 financial statements have been reclassified to the fiscal year ended June 30, 2017 presentation.

2. **Cash and Cash Equivalents**

At times throughout the year, the Foundation may maintain certain bank accounts in excess of federally insured limits, which is a concentration of credit risk. The risk is mitigated by maintaining deposits in only well capitalized financial institutions.

3. **Investments**

Fair values and unrealized appreciation (depreciation) of investments at June 30, 2017 and 2016 are summarized as follows:

	2017			2016		
	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Appreciation/ (Depreciation)</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Appreciation/ (Depreciation)</u>
Held by investment custodians:						
Cash and cash equivalents	3,568,404	3,568,404	-	4,481,379	4,481,379	-
Certificates of deposit	385,000	385,000	-	585,000	585,000	-
Mutual funds	20,856,844	24,354,834	3,497,990	30,629,439	33,666,824	3,037,385
Government obligations and corporate bonds	19,093,823	19,021,134	(72,689)	17,339,158	17,533,175	194,017
Common stocks	13,598,556	16,572,519	2,973,963	10,151,767	12,218,538	2,066,771
Real estate held by the Foundation	<u>642,031</u>	<u>642,031</u>	<u>-</u>	<u>1,254,716</u>	<u>1,254,716</u>	<u>-</u>
	58,144,658	64,543,922	6,399,264	64,441,459	69,739,632	5,298,173
Accrued interest included in restricted investments	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,624</u>	<u>8,624</u>	<u>-</u>
	<u>58,144,658</u>	<u>64,543,922</u>	<u>6,399,264</u>	<u>64,450,083</u>	<u>69,748,256</u>	<u>5,298,173</u>
Included on the Statement of Financial Position:						
Investments	20,541,706	21,592,279	1,050,573	27,857,960	29,513,998	1,656,038
Restricted assets-investments	<u>37,602,952</u>	<u>42,951,643</u>	<u>5,348,691</u>	<u>36,592,123</u>	<u>40,234,258</u>	<u>3,642,135</u>
	<u>58,144,658</u>	<u>64,543,922</u>	<u>6,399,264</u>	<u>64,450,083</u>	<u>69,748,256</u>	<u>5,298,173</u>

The following schedule summarizes the investment return and its classification in the statement of activities for the years ended June 30, 2017 and 2016:

	2017			2016		
	<u>Unrestricted</u>	<u>Temporarily and Permanently Restricted</u>	<u>Total</u>	<u>Unrestricted</u>	<u>Temporarily and Permanently Restricted</u>	<u>Total</u>
Interest and dividends income	132,600	646,320	778,920	10,410	635,597	646,007
Net realized and unrealized gains (losses)	<u>(10,538)</u>	<u>2,037,729</u>	<u>2,027,191</u>	<u>(1,941)</u>	<u>(548,463)</u>	<u>(550,404)</u>
Total investment return	<u>122,062</u>	<u>2,684,049</u>	<u>2,806,111</u>	<u>8,469</u>	<u>87,134</u>	<u>95,603</u>

Of the bank balances, those funds not covered by federal deposit insurance were covered by collateral held by the pledging banks' trust department.

4. Fair Value of Financial Instruments

The Foundation adopted FASB Accounting Standards Codification Topic 820, “Fair Value Measurements” (Topic 820). Topic 820 requires disclosures that stratify balance sheet amounts measured at fair value based on the inputs used to derive fair value measurements. These strata included:

- Level 1 valuations, where the valuation is based on quoted market prices for identical assets or liabilities traded in active markets (which include exchanges and over-the-counter markets with sufficient volume),
- Level 2 valuations, where the valuation is based on quoted market prices for similar instruments traded in active markets, quoted prices for identical or similar instruments in markets that are not active and model-based valuation techniques for which all significant assumptions are observable in the market, and
- Level 3 valuations, where the valuation is generated from model-based techniques that use significant assumptions not observable in the market, but observable based on Foundation-specific data. These unobservable assumptions reflect the Foundation’s own estimates for assumptions that market participants would use in pricing the asset or liability. Valuation techniques typically include option pricing models, discounted cash flow models and similar techniques, but may also include the use of market prices of assets or liabilities that are not directly comparable to the subject asset or liability.

Fair values of assets and liabilities measured on a recurring basis at June 30, 2017 and 2016 are as follows:

	<i>Assets at Fair Value as of June 30, 2017</i>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair Value</u>
Money Markets	3,568,404	-	-	3,568,404
Certificates of Deposit	385,000	-	-	385,000
Mutual Funds:				
Domestic Blended	221,201	-	-	221,201
Domestic Growth	392,586	-	-	392,586
Foreign Blended	1,820,426	-	-	1,820,426
Foreign Growth	372,507	-	-	372,507
Real Estate	<u>18,153</u>	<u>-</u>	<u>-</u>	<u>18,153</u>
Total Mutual Funds	2,824,873	-	-	2,824,873
Exchange Traded Funds	21,346,827	-	-	21,346,827
Government Obligations and Corporate Bonds	-	19,021,134	-	19,021,134
Common Stocks-Domestic	16,755,653	-	-	16,755,653
Real Estate	<u>-</u>	<u>-</u>	<u>642,031</u>	<u>642,031</u>
Total	<u>44,880,757</u>	<u>19,021,134</u>	<u>642,031</u>	<u>64,543,922</u>

4. Fair Value of Financial Instruments (Continued)

<i>Assets at Fair Value as of June 30, 2016</i>				
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair Value</u>
Money Markets	4,490,003	-	-	4,490,003
Certificates of Deposit	585,000	-	-	585,000
Mutual Funds:				
Domestic Blended	3,624,228	-	-	3,624,228
Domestic Fixed Income	7,601,709	-	-	7,601,709
Domestic Growth	444,088	-	-	444,088
Foreign Blended	5,532,858	-	-	5,532,858
Foreign Fixed Income	471,040	-	-	471,040
Foreign Growth	1,516,706	-	-	1,516,706
Real Estate	<u>1,033,202</u>	<u>-</u>	<u>-</u>	<u>1,033,202</u>
Total Mutual Funds	20,223,831	-	-	20,223,831
Exchange Traded Funds	13,442,993	-	-	13,442,993
Government Obligations and Corporate Bonds	-	17,533,175	-	17,533,175
Common Stocks-Domestic	12,218,538	-	-	12,218,538
Real Estate	<u>-</u>	<u>-</u>	<u>1,254,716</u>	<u>1,254,716</u>
Total	<u>50,960,365</u>	<u>17,533,175</u>	<u>1,254,716</u>	<u>69,748,256</u>

Investments measured at fair value on a recurring basis using significant unobservable inputs (Level 3):

	<u>2017</u>	<u>2016</u>
Balance-July 1	1,254,716	174,662
Gains (losses) realized and unrealized	-	-
Purchases, issuances, and settlements	4,875	1,080,054
Sales	(617,560)	-
Transfers in and/or out of Level 3, net	<u>-</u>	<u>-</u>
Balance-June 30	<u>642,031</u>	<u>1,254,716</u>

5. **Fixed Assets**

A summary of the fixed assets at June 30, 2017 and 2016 follows:

	Depreciable <u>Lives</u>	<u>2017</u>	<u>2016</u>
Automobiles	2-3	150,335	150,335
Furniture, fixtures and equipment	3-10	3,597,009	3,532,500
Engineering equipment	3-10	666,682	666,682
Real estate and other	-	<u>136,557</u>	<u>136,557</u>
		4,550,583	4,486,074
<u>Less-accumulated depreciation</u>		<u>(3,892,228)</u>	<u>(3,808,260)</u>
		<u>658,355</u>	<u>677,814</u>

Depreciation of \$83,968 and \$68,502 was recorded for the years ended June 30, 2017 and 2016, respectively.

6. **Contributions Receivable**

Contributions receivable, net, is summarized as follows as of June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Unconditional pledges expected to be collected in:		
Less than one year	1,630,647	140,634
One year to five years	<u>4,549,280</u>	<u>1,520,020</u>
	6,179,927	1,660,654
<u>Less-discount on future contributions receivable</u> (discount rate of 1.35% and 0.98% in 2017 and 2016, respectively)	(195,806)	(23,918)
<u>Less-allowance for uncollectible contributions</u> receivable	<u>(224,086)</u>	<u>(78,072)</u>
Contributions receivable, net	<u>5,760,035</u>	<u>1,558,664</u>

7. **Notes Payable**

Notes payable consist of the following at June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Note payable to Origin Bank for construction of football stadium video board dated November 2, 2009, original amount of \$2,050,000, renewed December 3, 2013 for \$1,508,621, variable rate interest at prime rate (3.25% at June 30, 2014 and 2013, respectively, not to exceed 5.75%), payable in nine semi-annual payments of \$95,000, and one final payment of \$825,595, matures July 15, 2018.	974,911	1,125,920

7. **Notes Payable** (Continued)

	<u>2017</u>	<u>2016</u>
Note payable to Origin Bank for construction of basketball arena video board dated December 4, 2013, original amount of \$752,650, variable rate interest at prime rate (3.25% not to exceed 5.00%), payable in seven semi-annual payments of \$45,000, and one final payment of \$521,397, matures July 15, 2018.	586,268	653,460
Note payable to Ford Motor Credit for the purchase of a 2015 Ford Taurus, dated November 20, 2015, original purchase of \$31,477, fixed interest rate of 3.89%, payable monthly for 60 months beginning January 1, 2016	<u>22,772</u> <u>1,583,951</u>	<u>28,633</u> <u>1,808,013</u>

Notes payable maturities are as follows:

Year Ended June 30,	
2018	236,806
2019	1,336,966
2020	6,673
2021	<u>3,506</u>
	<u>1,583,951</u>

Interest expense for the years ended June 30, 2017 and 2016 was \$61,743 and \$67,252, respectively.

Effective May 23, 2017, the board of directors approved self-financing, through the Foundation, to facilitate the timely completion of an athletics expansion project with the use of endowment funds. The funds were borrowed at an interest rate of four percent, with no formalized repayment schedule. Funds will be paid back as proceeds from charitable gifts along with income generated from above said project are available. The financial statements reflect a note receivable from the Foundation, in the amount of \$11,054,000 and an unsecured note payable in the same amount to the Louisiana Tech University Foundation endowment investment account.

8. **Transactions with Louisiana Tech University**

Louisiana Tech University provides to the Foundation, without cost, services for the administration of the Foundation in the form of personnel. In addition, Louisiana Tech University provides, without cost, certain other operating services associated with the Foundation. These services are valued at their actual cost to Louisiana Tech University. For the year ended June 30, 2017, contributed personnel costs and operating services were determined to be \$1,625,471 and \$2,763, respectively. For the year ended June 30, 2016, contributed personnel costs and operating services were determined to be \$1,301,920 and \$2,357, respectively. The amounts for these services have been reflected as contributed services revenue and corresponding general administrative services and fundraising expenses in the accompanying financial statements.

8. Transactions with Louisiana Tech University (Continued)

For the years ended June 30, 2017 and 2016, expenses totaling approximately \$9,071,694 and \$8,169,358, respectively, were paid directly to or for the benefit of Louisiana Tech University.

Funds administered by the Foundation on behalf of Louisiana Tech University are not commingled with funds belonging to the Foundation. Classified as amounts due to Louisiana Tech University at June 30, 2017 and 2016 is \$38,771,643 and \$36,234,258, respectively, related to certain endowed chairs and professorships matched by the State of Louisiana. Initially, the donor portion of these funds is recorded as contributions to the Foundation. Once the state matching is received, the donor portion is deducted from the permanently restricted, temporarily restricted, and unrestricted net assets of the Foundation and reflected as due to Louisiana Tech University.

Various other services and facilities are contributed to the Foundation, the values of which are not readily determinable and, therefore, are not reflected as contributions or expenses in the accompanying financial statements.

9. Commitments

As of June 30, 2017 and 2016, there was approximately \$455,883 and \$350,488, respectively, in awarded but unpaid scholarships, which were funded subsequent to year-end.

10. Annuities Liability

The Foundation receives donations through split-interest agreements with contributors. These split-interest agreements specify that the donation is made in return for an individual or joint annuity for the remaining lives of the contributors. The difference between the fair market value of the assets received and liability under the annuity is recognized as revenue in the year received. Upon the death of the contributor, the remaining liability, if any, is recognized as revenue. The Foundation has received four donations under such agreements that result in an annuities liability totaling \$148,014 and \$161,439 at June 30, 2017 and 2016, respectively. The liabilities were calculated using discount rates of 4.9%, 5.0%, 3.25%, and 7.5%.

11. Multimedia Sponsorship Rights

On August 28, 2008, the Foundation entered into an agreement with Louisiana Tech University ("University") for the exclusive promotion and management of multimedia sponsorship rights for Louisiana Tech University Athletics. The term of the agreement is July 1, 2009 through June 30, 2019. The agreement indicates that the Foundation will contract with a third party company to sell multimedia sponsorship rights on behalf of Louisiana Tech University Athletics. As payment for rights granted under this agreement, the Foundation is required to pay the University an annual minimum fee of \$200,000. Future minimum payments to the University related to this agreement are:

Year ended June 30,

2018	200,000
2019	<u>200,000</u>
	<u><u>400,000</u></u>

On November 25, 2008, the Foundation entered into an agreement with LA Tech Sports Properties, LLC ("Learfield"), a Missouri limited liability company owned by Learfield Communications, Inc. with respect to the licensing rights related to the promotion of Louisiana Tech University Athletics. The term of the agreement is July 1, 2009 through June 30, 2019. As payment for the rights granted

11. Multimedia Sponsorship Rights (Continued)

under this agreement, Learfield will pay the Foundation an annual minimum guaranteed payment of \$655,253 each year for the remainder of the contract. Payments of \$655,253 were received under this agreement for the fiscal years ended June 30, 2017 and 2016, respectively, and recorded as temporarily restricted other income. At June 30, 2017 and 2016, accounts receivable and deferred revenue of \$1,310,506 and \$1,965,759, respectively, were recorded related to this agreement using a net present value calculation with an average discount rate of 2.52%.

12. Endowed Net Assets

The Foundation has established prudent investment and spending policies with the objective of maintaining the purchasing power of its endowed assets in perpetuity and to provide a stable level of support to the beneficiaries. To achieve this objective, the Foundation's asset allocation strategy is reviewed periodically and adjusted to target a total return that covers inflation, administrative expenses, and spending allocations, while minimizing volatility.

Private endowed contributions received for professorships and chairs are included in endowed net assets. Certain endowed funds are provided by the State of Louisiana as a match to these qualifying private endowed contributions. Once the match is received, the private endowed funds along with the matching endowed funds are transferred to the Due to Louisiana Tech University liability account. These endowed assets are further subject to the investment and spending policies established by the Louisiana Board of Regents, which has statutory authority to administer the matching funds program.

A spending rate is determined by the Foundation's Board of Directors, with consideration given to market conditions, the spending levels of peer institutions, and historical returns. The objective is to provide relatively stable spending allocations. The spending rate approved by the Board for the fiscal year ended June 30, 2017 is 4.5%. Prior state law dictated that no portion of the corpus (original amount of donation) of the endowed assets shall be allocated for spending. However, in June 2010, the state legislature passed the Uniform Prudential Management of Institutional Funds Act (UPMIFA). This act changed the law regarding spending in endowments, to allow for a portion of the corpus to be spent.

The Foundation classifies as permanently restricted net assets the original value of gifts donated for permanent endowment, any subsequent gifts to such endowments, and accumulations subsequently made at the direction of the applicable donor instrument.

Endowment fund net asset composition as of June 30, 2017:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, June 30, 2016	-	1,870,791	29,898,408	31,769,199
Contributions	-	-	1,215,283	1,215,283
Income (loss) on long-term investments	-	642,943	-	642,943
Net appreciation/(depreciation)	-	1,813,732	-	1,813,732
Other income	-	-	139,640	139,640
Released from restriction	-	(2,585,248)	(222,199)	(2,807,447)
Assets dedicated to LA Tech University	-	-	(380,000)	(380,000)
Endowment net assets, June 30, 2017	<u>-</u>	<u>1,742,218</u>	<u>30,651,132</u>	<u>32,393,350</u>

12. Endowed Net Assets (Continued)

Endowment fund net asset composition as of June 30, 2016:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, June 30, 2015	-	2,938,721	29,443,744	32,382,465
Contributions	-	-	1,448,749	1,448,749
Income (loss) on long-term investments	-	585,775	375	586,150
Net appreciation/(depreciation)	-	(481,504)	-	(481,504)
Other income	-	-	4,487	4,487
Released from restriction	-	(1,172,201)	(98,947)	(1,271,148)
Assets dedicated to LA Tech University	<u>-</u>	<u>-</u>	<u>(900,000)</u>	<u>(900,000)</u>
Endowment net assets, June 30, 2016	<u>-</u>	<u>1,870,791</u>	<u>29,898,408</u>	<u>31,769,199</u>

13. Subsequent Events

In accordance with FASB Accounting Standards Codification Topic 740 "Subsequent Events," the Foundation evaluated events and transactions that occurred after the statement of financial position date but before the financial statements were made available for issuance for potential recognition or disclosure in the financial statements. The Foundation evaluated such events through December 26, 2017 and noted no such subsequent events.

OTHER REPORTS

HEARD, McELROY, & VESTAL

—LLC—

CERTIFIED PUBLIC ACCOUNTANTS

333 TEXAS STREET, SUITE 1525
SHREVEPORT, LOUISIANA 71101
318-429-1525 PHONE • 318-429-2070 FAX

December 26, 2017

The Board of Directors
Louisiana Tech University Foundation, Inc.
Ruston, Louisiana

**Independent Auditor's Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Louisiana Tech University Foundation, Inc., which comprise the statement of financial position as of June 30, 2017, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 26, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Louisiana Tech University Foundation, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Louisiana Tech University Foundation, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Louisiana Tech University Foundation, Inc.'s internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



Compliance and Other Matters

As part of obtaining reasonable assurance about whether Louisiana Tech University Foundation, Inc.'s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Heard, McElroy & Vestal, LLC

Shreveport, Louisiana

LOUISIANA TECH UNIVERSITY FOUNDATION, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2017

A. Summary of Audit Results

1. The auditor's report expresses an unmodified opinion on the basic financial statements of Louisiana Tech University Foundation, Inc.
2. No material weaknesses or significant deficiencies relating to the audit of the financial statements were reported.
3. No instances of noncompliance material to the financial statements of Louisiana Tech University Foundation, Inc. were disclosed during the audit.
4. Louisiana Tech University Foundation, Inc. was not subject to a federal single audit for the year ended June 30, 2017.

B. Financial Statement Findings

No matters were reported.

LOUISIANA TECH UNIVERSITY FOUNDATION, INC.
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2017

No matters were noted in the prior year.